

The
President's
Report *to the*
Board *of*
Directors

March 6, 2018

CURRENT ECONOMIC DEVELOPMENTS - March 6, 2018

Data released since your last Directors' meeting show that economic growth in the fourth quarter was a bit lower than originally estimated, and recent data suggest that growth will slow further in the first quarter. Labor markets continued to strengthen and consumer attitudes improved. However, consumer spending decreased and support from manufacturing has been mixed. Overall, data remain consistent with a moderately growing economy.

In the three weeks ending February 24th, initial claims for unemployment insurance fell, on average, and remain at a level consistent with further improvement in the labor market. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to post another solid gain in February. The unemployment rate is expected to decrease one-tenth to 4.0% in February.

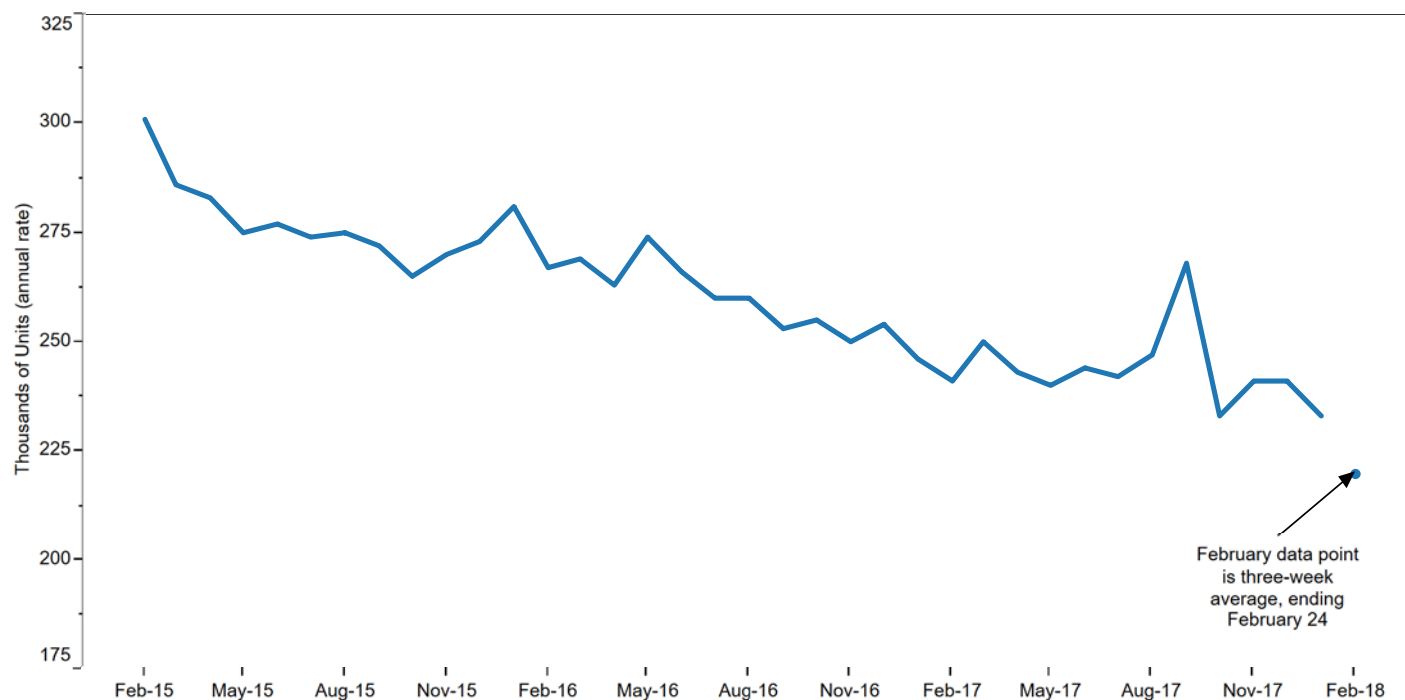
Consumer attitudes improved in February, as both the sentiment and confidence indexes increased due to more favorable views on current labor market and personal financial conditions, as well as more optimism about the short-term economic outlook. In January, consumption fell despite an increase in disposable incomes. Primary measures of real estate activity were mixed in January, as new and existing home sales continued to decline, while housing starts and building permits increased.

In the manufacturing sector, the ISM index increased in February and continued to signal expansion in the manufacturing industry. Industrial production fell in January, while capacity utilization held steady. Orders for both durable goods and nondefense capital goods, excluding aircraft, decreased in January but continued to rise from their year-ago levels.

Both total and core consumer inflation were essentially unchanged in January. Oil prices declined on average in February, and prices in early March have remained roughly in line with their February average.

Initial claims for unemployment insurance have fallen further, on average, in the three weeks ending February 24th, after declining in January. The latest claims estimates were at 48-year lows and remain at a level consistent with further labor market improvement.

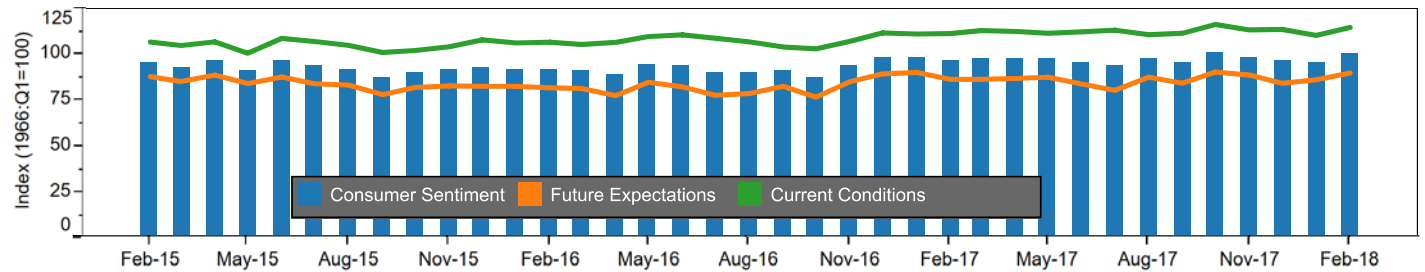
Initial Claims



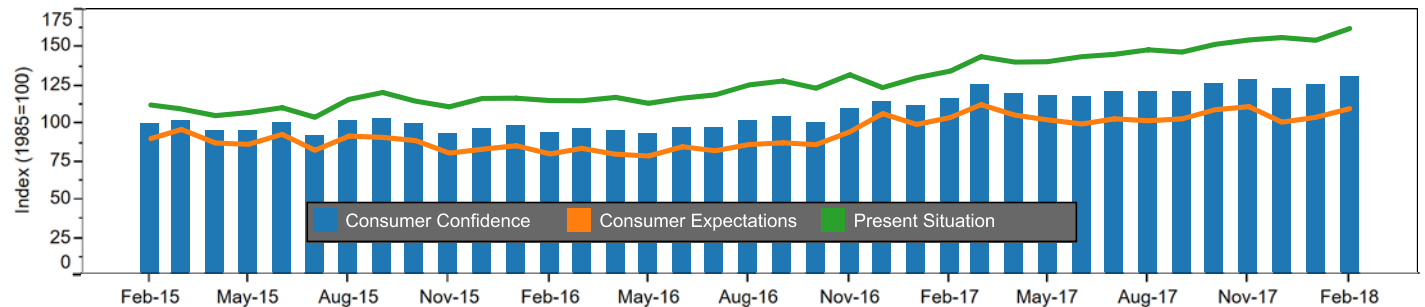
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in February, as the sentiment index increased to its highest level since October, and the confidence index rose to a 17-year high. Consumers expressed more favorable views of the labor market and personal finances, and were more optimistic about the short-term economic outlook.

Consumer Sentiment and Expectations



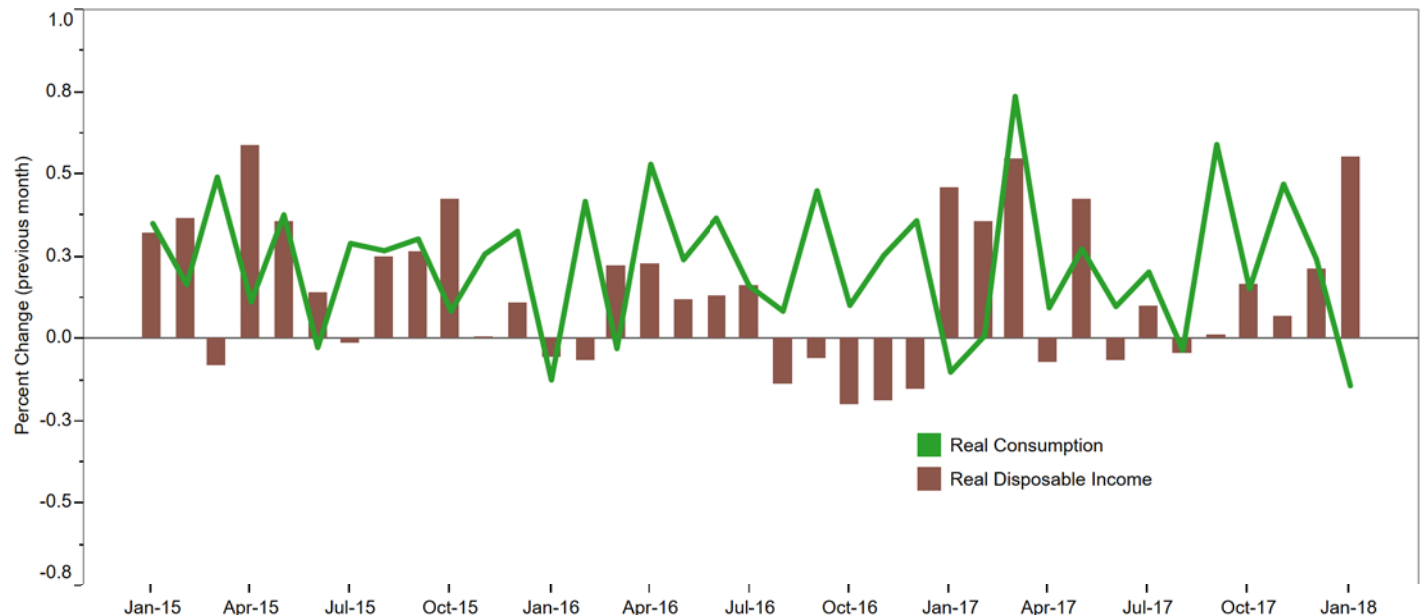
Consumer Confidence and Expectations



Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

Real incomes rose in January, their fourth consecutive monthly increase. Despite the higher incomes, consumption fell in January, its largest monthly decrease in one year.

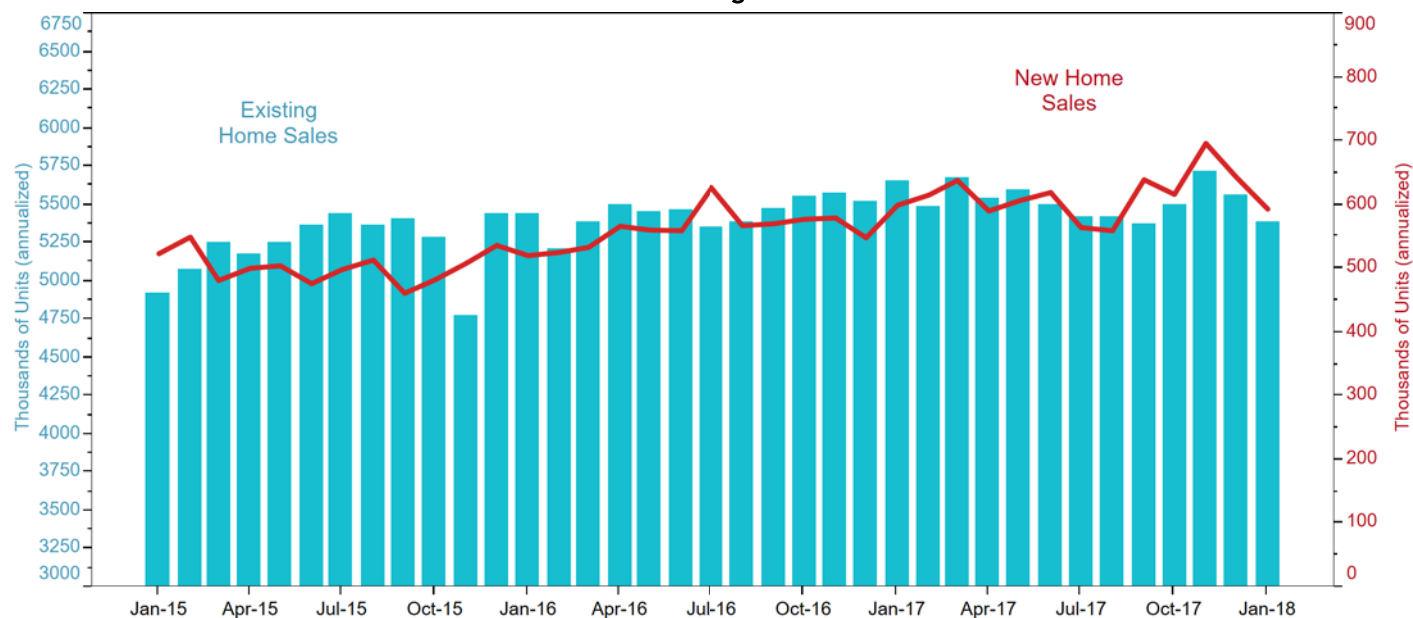
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data continued to decline in January. New home sales fell for the second consecutive month, reaching their lowest rate since August. Existing home sales also fell in January, after declining in December, and reached their slowest pace since September.

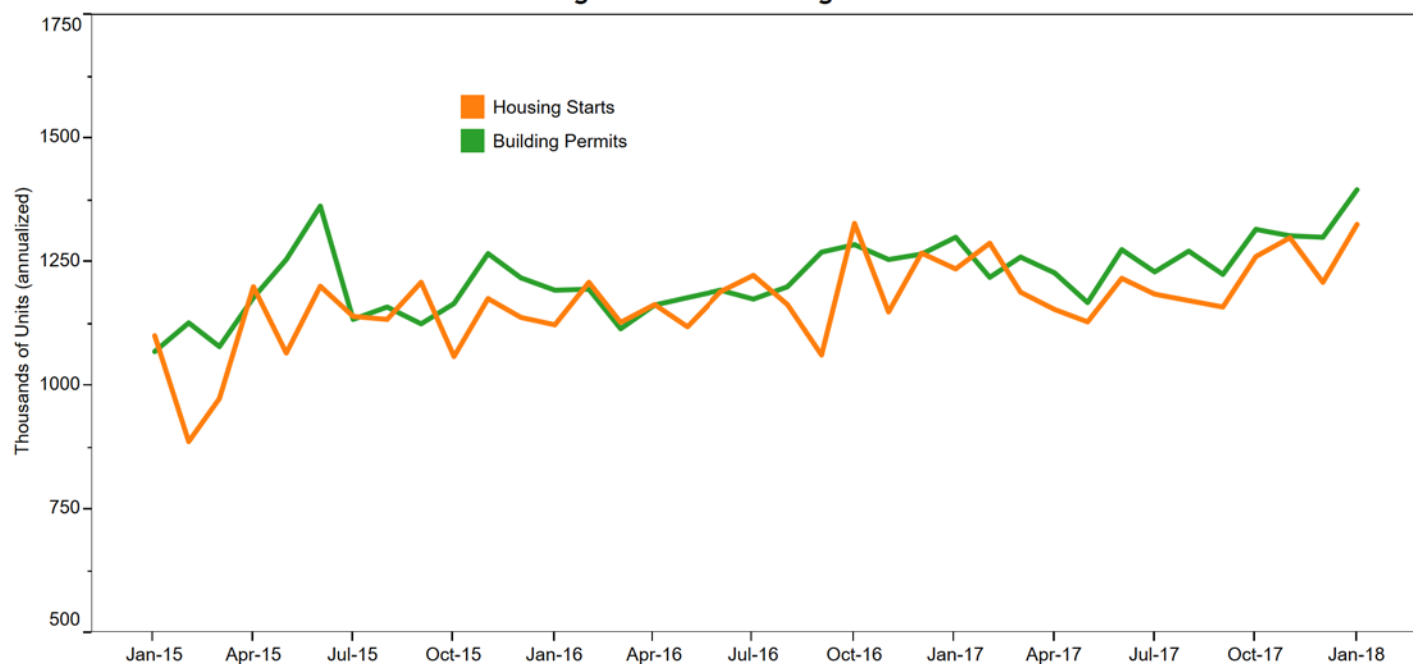
New and Existing Home Sales



Source: National Association of Realtors (existing home sales) and U.S. Census Bureau (new homes sales) / Haver Analytics.

Housing starts picked up in January, more than offsetting the decline seen in the prior month, and reached their highest rate since October 2016. The rise was due to increases in both single-family and multi-family starts. Building permits also rose in January, after easing in each of the previous two months, as an increase in multi-family permits more than offset a decline in single-family permits. Total permits reached their highest rate since mid-2007.

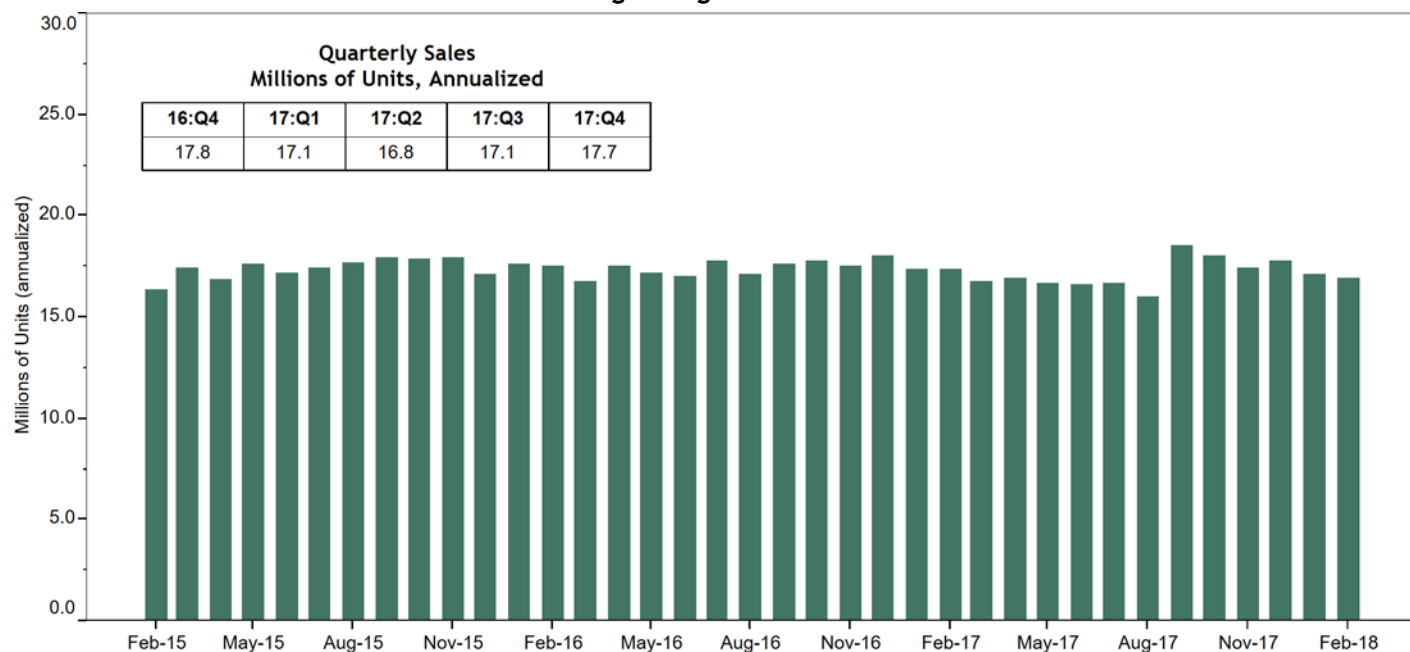
Housing Starts and Building Permits



Source: U.S. Census Bureau / Haver Analytics.

The pace of lightweight vehicle sales eased a bit in February, after declining in January, as the elevated replacement demand for vehicles damaged in the fall hurricanes has likely receded.

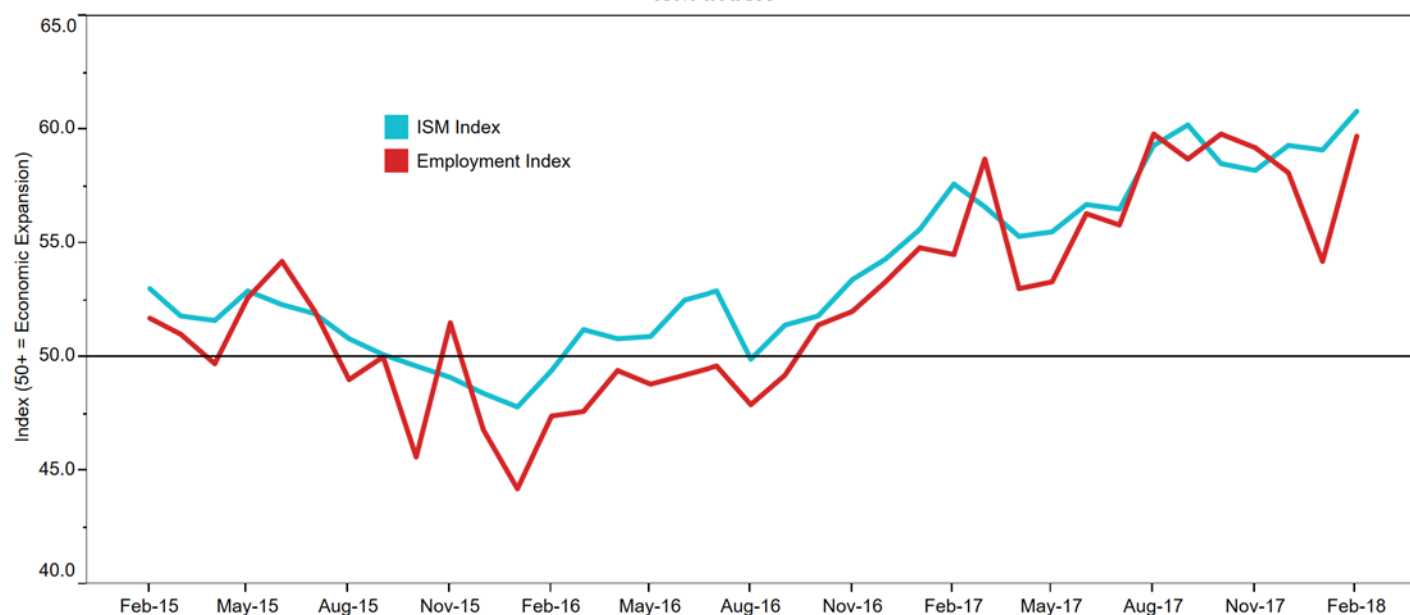
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

The ISM manufacturing index increased in February, reaching its highest level since May 2004, after edging down in January. The index continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index also increased in February, more than offsetting the decline seen in the prior month.

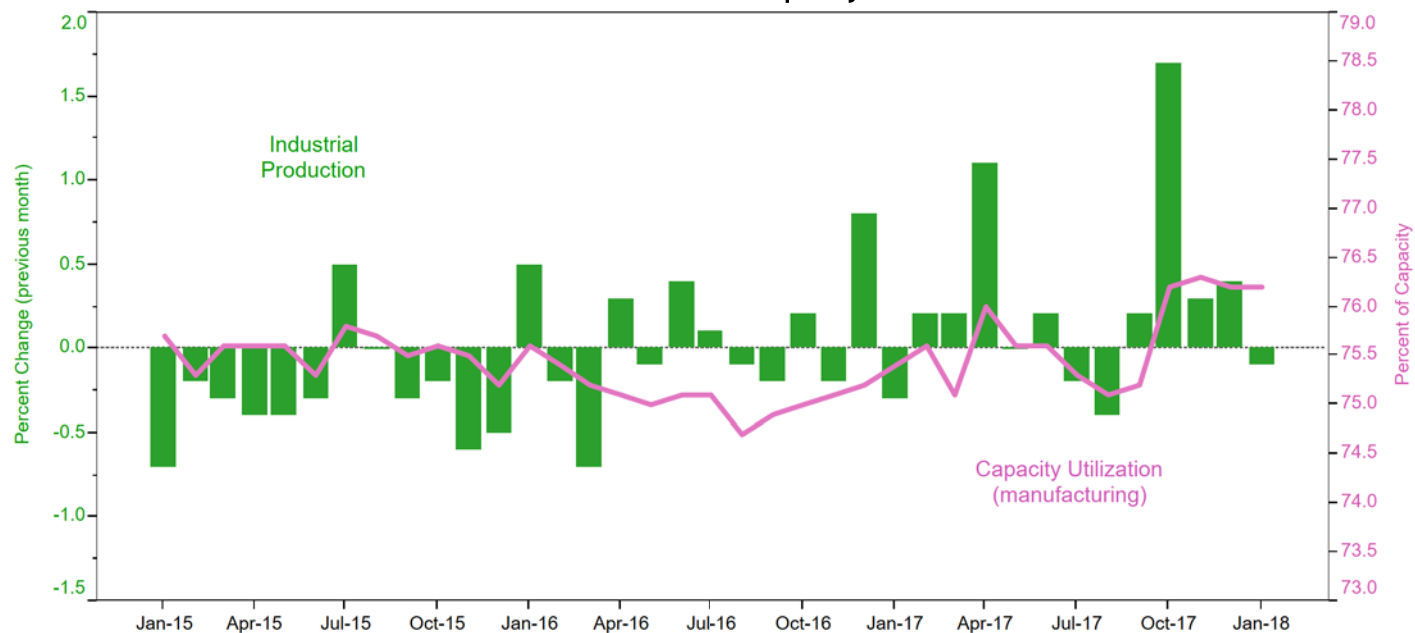
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production ticked down in January, after rising in each of the previous four months. Mining production posted a decrease in January, while manufacturing production was unchanged and utilities output increased. Capacity utilization held steady in January.

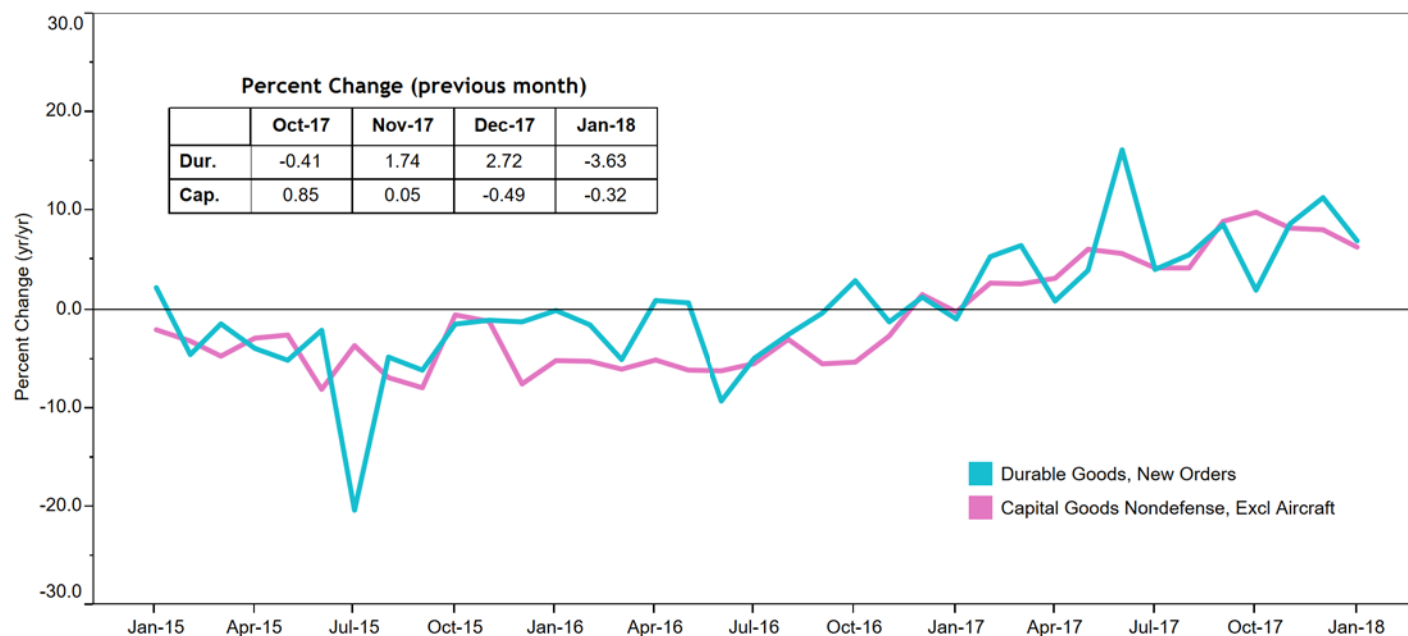
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in January, after increasing in each of the previous two months. Meanwhile, orders for nondefense capital goods, excluding aircraft, eased in January, their second consecutive monthly decline. Both total and core orders continued to increase from their year-ago levels in January, albeit at slower rates than seen in the prior month.

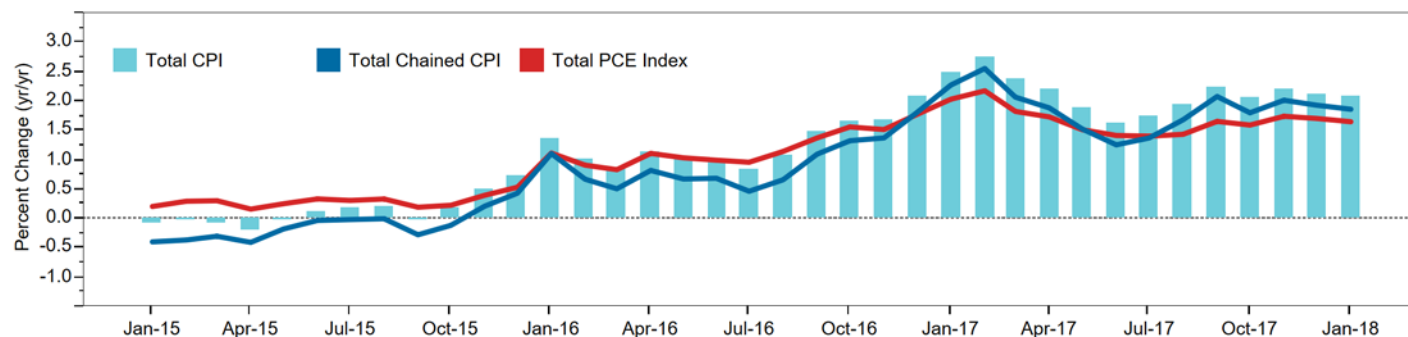
Durable Goods Orders



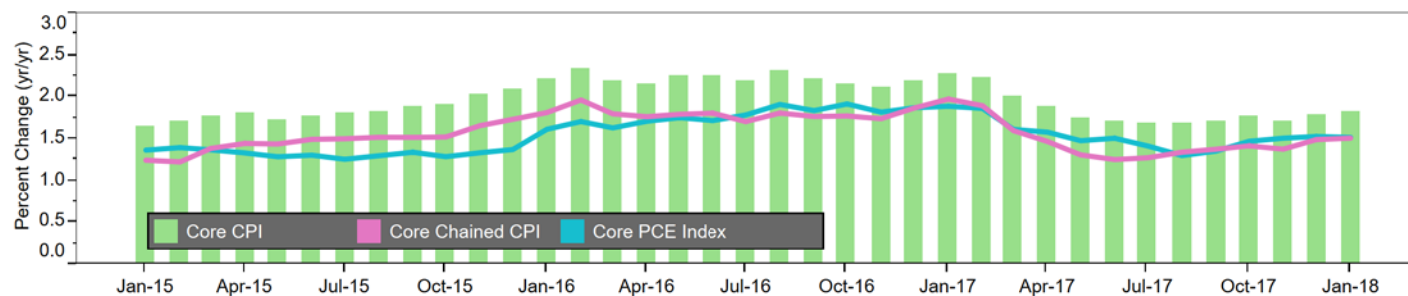
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices held relatively steady in January, while growth in core prices, which exclude the volatile food and energy categories, was also essentially unchanged.

Total Price Indices



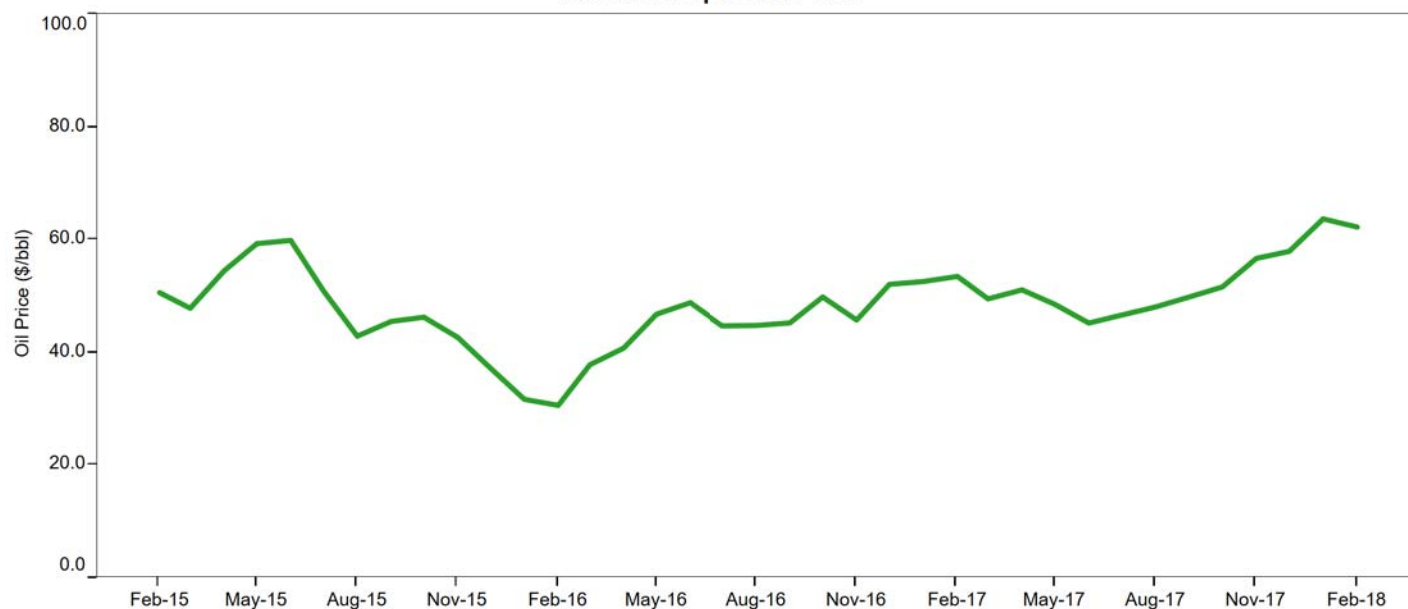
Core Price Indices



Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices declined on average in February, after increasing in each of the previous seven months. In the first week of March, prices were little changed from their February average, registering \$62.6 per barrel on March 5th.

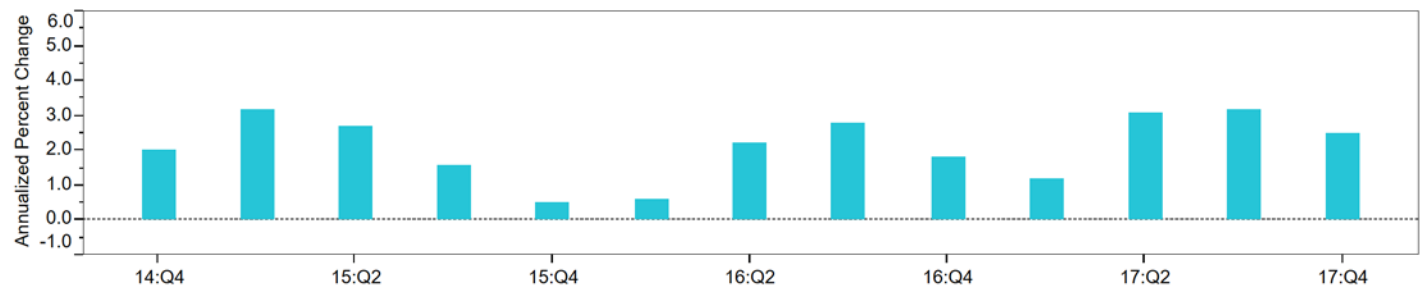
Domestic Spot Oil Price



Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

Fourth quarter real GDP growth was revised down a tick in the second estimate to 2.5% from 2.6%. The lower rate primarily reflected a slight downward revision to private inventory investment.

Real GDP



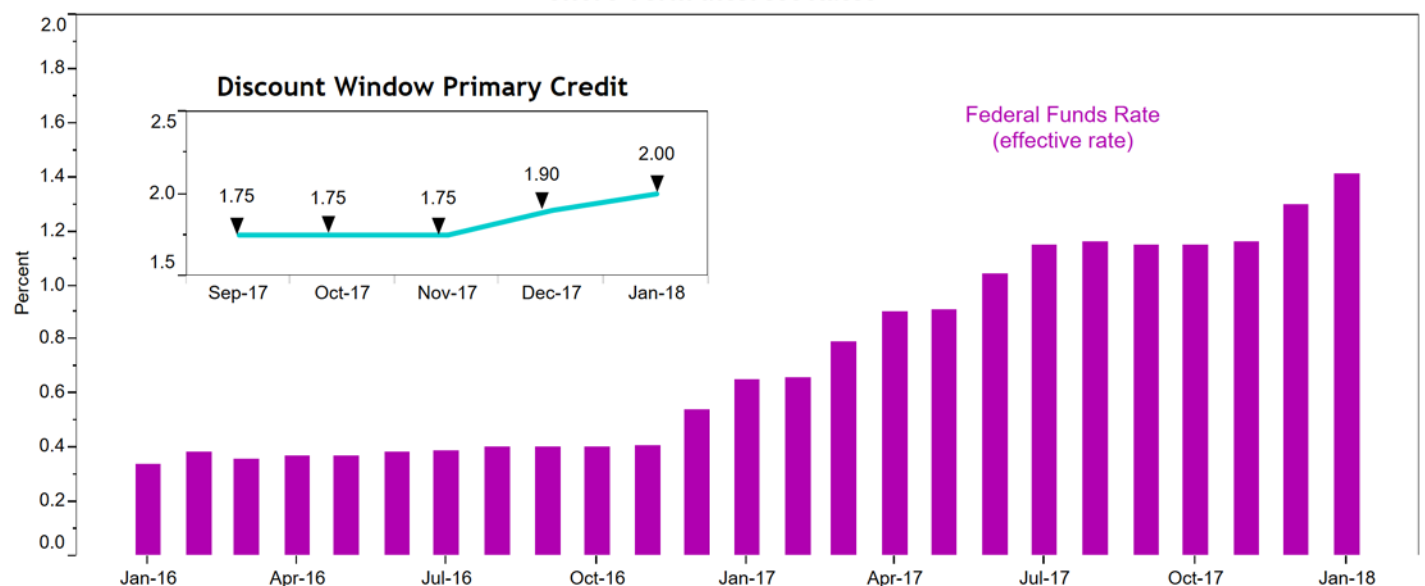
Revisions to Fourth Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	2.6	2.5
Personal Consumption	3.8	3.8
Business Investment	6.8	6.6
Equipment and Software	11.4	11.8
Residential Investment	11.6	13.0
Government	3.0	2.9
Exports	6.9	7.1
Imports	13.9	14.0
Final Sales	3.2	3.3

Source: Bureau of Economic Analysis / Haver Analytics.

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Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Christy Marieni.